

Message Text

PAGE 01 STATE 257428

44

ORIGIN EB-02

INFO OCT-01 EUR-01 ISO-00 /004 R

666

DRAFTED BY: EB/IFD/OMA:BGCROWE

APPROVED BY: EB/IFD/OMA:RJRYAN

----- 024781

R 150141Z NOV 75

FM SECSTATE WASHDC

TO USMISSION OECD PARIS

LIMITED OFFICIAL USE STATE 257428

FOR TANNER AND ASSELIN

FOL TEL RPT STATE 257428 SENT ACTION BONN LONDON OTTAWA

TOKYO INFO GENEVA OCT 30 QTE

LIMITED OFFICIAL USE STATE 257428

E.O. 11652: N/A

TAGS: EFIN

SUBJECT: DEBT PROBLEMS OF THE DEVELOPING COUNTRIES

1. REQUEST YOU DISCUSS POINTS NOTED BELOW WITH HOST GOVERNMENT OFFICIALS, AND REPORT THEIR REACTIONS AND VIEWS IN AS MUCH DETAIL AS POSSIBLE.

2. "DEBT PROBLEMS OF DEVELOPING COUNTRIES" IS ONE OF THE MAJOR AGENDA ITEMS TO BE DISCUSSED DURING THE TWO-WEEK UNCTAD CIFT MEETING OPENING IN GENEVA ON OCTOBER 27. THE UNITED NATIONS' GROWING INTEREST WITH THE DEBT ISSUE IS ALSO EVIDENCED BY THE FACT THAT THE 7TH UNGA SPECIAL SESSION DIRECTS UNCTAD TO "CONSIDER THE NEED FOR A POSSIBILITY OF CONVENING, AS SOON AS POSSIBLE, A CONFERENCE OF MAJOR DONOR, CREDITOR AND DEBTOR COUNTRIES TO DEVISE WAYS

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 STATE 257428

AND MEANS TO MITIGATE THIS BURDEN (I.E. THE BURDEN OF DEBT), TAKING INTO ACCOUNT THE DEVELOPMENT NEEDS OF THE MOST SERIOUSLY AFFECTED COUNTRIES..." MOREOVER, THE AGENDA PROPOSED FOR THE MAY 1976 UNCTAD INCLUDES THE FOLLOWING

ITEM ON DEBT : "DECISIONS ON MEASURES TO ALLEVIATE THE CRITICAL DEBT PROBLEMS OF MANY DEVELOPING COUNTRIES."

3. WE BELIEVE THE BASIC THRUST OF THE UNITED NATIONS DEBT ACTIVITY IS TO GENERATE SUPPORT FOR THE USE OF DEBT RELIEF AS A METHOD OF PROVIDING GENERAL BALANCE OF PAYMENTS RELIEF

TO THE LDCS. THIS OBJECTIVE IS NOT SHARED EQUALLY BY ALL LDCS, HOWEVER, AND SOME OF THE MORE ADVANCED -- PARTICULARLY THOSE ANXIOUS TO PRESERVE THEIR CREDITWORTHINESS TO BORROW ON THE INTERNATIONAL CAPITAL MARKETS -- APPEAR TO REALIZE THAT MORE WIDESPREAD DEBT RELIEF COULD ADVERSELY AFFECT THE LONG-TERM FLOW OF RESOURCES TO THE LDCS. IN SPITE OF THE DIVERGENT INTERESTS AMONG THE LDCS ON THIS ISSUE, HOWEVER, THE DESIRE OF THE LDCS TO PUBLICLY MAINTAIN "THIRD WORLD" UNITY TENDS TO FOSTER A JOINT LDC POSITION ADVOCATING A MAJOR RELAXATION OF CURRENT CREDITOR COUNTRY POLICY ON DEBT RELIEF.

4. SOME OF THE SMALLER DEVELOPMENT ASSISTANCE COMMITTEE (DAC) CREDITORS ARE LIKELY TO BE RESPONSIVE TO LDC PRESSURES FOR GENERALIZED DEBT RELIEF. THE NETHERLANDS, FOR EXAMPLE, HAS RECENTLY PROPOSED A ONE YEAR DEBT MORATORIUM FOR THE MOST SERIOUSLY AFFECTED AND LEAST DEVELOPED COUNTRIES. SUCH GENEROSITY, IN FACT, WOULD COST THE NETHERLANDS VERY LITTLE. BASED ON 1975 DEBT SERVICE THE NETHERLANDS WOULD DEFER DEBT SERVICE OF \$9 MILLION. THE COST OF THE NETHERLANDS PROPOSAL WOULD BE CONSIDERABLE, HOWEVER, TO THE MAJOR CREDITORS; UNITED STATES \$234 MILLION, GERMANY \$177 MILLION, JAPAN \$134 MILLION, UNITED KINGDOM \$102 MILLION, FRANCE \$78 MILLION, AND CANADA \$22 MILLION. TOGETHER THESE SIX MAJOR CREDITORS WOULD ACCOUNT FOR MORE THAN 95 PERCENT OF WHAT THE NETHERLANDS PROPOSAL WOULD COST THE 17 DAC CREDITORS.

5. THE BASIC ATTITUDE OF THE UNITED STATES TOWARD LDC DEBT PROBLEMS HAS CLOSELY PARALLELED THAT OF OTHER MAJOR LIMITED OFFICIAL USE LIMITED OFFICIAL USE

PAGE 03 STATE 257428

CREDITORS. DIFFERENCES THAT HAVE ARISEN AMONG MAJOR CREDITORS IN THE PAST HAVE GENERALLY RELATED TO JUDGMENTS REGARDING THE ELIGIBILITY OF SPECIFIC DEBTOR COUNTRIES (E.G. CHILE, INDIA) FOR DEBT RELIEF, RATHER THAN DIVERGENT VIEWS ON OVERALL POLICY. WE NOTE, FOR EXAMPLE, THE DAC PAPER DAC/FA (74)9 OF 6 DECEMBER 1974) BASIC ATTITUDES OF DEVELOPED COUNTRIES TOWARDS DEBT PROBLEMS OF DEVELOPING COUNTRIES WITH WHICH DAC CREDITORS WERE IN GENERAL AGREEMENT.

6. YOU SHOULD NOTE THAT MOST OF THE CURRENTLY MOST SERIOUS DEBT SERVICE PROBLEMS, SUCH AS THOSE OF ARGENTINA AND ZAIRE,

ARE NOT RELATED TO OFFICIAL DEBT BUT TO PRIVATE UNGUARANTEED BORROWING, INCLUDING LARGE BORROWING IN THE EURO CURRENCY MARKET. ON BALANCE, RESCHEDULING ACTIONS FOR ANY LDCS WEAKEN THE ABILITY OF ALL LDCS TO OBTAIN FUNDS FROM THE PRIVATE MARKET AND GENERAL RESCHEDULING WOULD BE EVEN MORE COUNTERPRODUCTIVE. LDCS AS A GROUP NOW DEPEND ON PRIVATE CAPITAL MOVEMENTS FOR AS MUCH NET FUNDING AS OFFICIAL DEVELOPMENT ASSISTANCE. MOREOVER, WE HAVE NOT DEVELOPED AND WE DO NOT BELIEVE IT WOULD BE DESIRABLE TO DEVELOP METHODS FOR GOVERNMENT INVOLVEMENT IN PRIVATE DEBT RESCHEDULING.

7. ALSO ANY GENERAL DEBT RESCHEDULING PROPOSALS CARRY SIGNIFICANT IMPLICATIONS FOR THE WORLD BANK AND THE REGIONAL BANKS. THESE BANKS HAVE GENERALLY NOT PARTICIPATED IN DEBT RESCHEDULING AND TO DO SO WOULD REDUCE THEIR OWN ABILITY TO BORROW ECONOMICALLY. HOWEVER, IT WOULD BE INCONSISTENT TO RESCHEDULE BILATERAL DEBT AND LEAVE THE OFTEN LARGER DEBT OF THESE INSTITUTIONS UNTOUCHED.

8. GIVEN THE INCREASED FOCUS ON DEBT IN THE UNITED NATIONS AND ELSEWHERE, WE BELIEVE IT APPROPRIATE TO REMIND APPROPRIATE HOST GOVERNMENT OFFICIALS OF USG THINKING ON DEBT ISSUE AND TO SOLICIT THEIR VIEWS ON SPECIFIC ASPECTS OF THE PROBLEM.

9. THE FOLLOWING HIGHLIGHTS USG POLICY ON SELECTED MAJOR ISSUES: (A) LDC DEBT AND FINANCING DIFFICULTIES:

LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 04 STATE 257428

---FOR A NUMBER OF YEARS, LDC DEBT AND DEBT BURDEN HAS BEEN VERY UNEVENLY DISTRIBUTED WITH A HANDFUL OF COUNTRIES ACCOUNTING FOR A LARGE PORTION OF RECORDED DEBT. FOR 1973, WORLD BANK DATA SHOW THAT 12 COUNTRIES ACCOUNT FOR 60 PERCENT OF PUBLIC DEBT AND ONLY TWO OF THESE COUNTRIES ARE MSAs; INDIA \$12.3B (MSA), BRAZIL \$9.2B, IRAN \$7.0B, MEXICO \$7.0B, INDONESIA \$6.6B, PAKISTAN \$5.1B (MSA), ALGERIA \$4.8B, ISRAEL \$4.7B, KOREA \$4.4B, TURKEY \$3.7B, ARGENTINA \$3.6B, AND CHILE \$3.4B. WITH REGARD TO ANNUAL SERVICE PAYMENTS DUE ON PUBLIC DEBT OF 35 MSAs, ESTIMATES FOR 1974 INDICATE THAT ONLY FOUR COUNTRIES, INDIA (\$636 MILLION), EGYPT (\$337 MILLION), PAKISTAN (\$181 MILLION), IVORY COAST (\$116 MILLION) ACCOUNTED FOR ABOUT 70 PERCENT OF THE TOTAL (\$1.8 BILLION) AND TWO OF THESE COUNTRIES, INDIA AND PAKISTAN, HAVE HAD OR ARE IN THE PROCESS OF HAVING THEIR PAYMENTS RESCHEDULED.

---THUS ANY GENERALIZED DEBT RELIEF PROPOSAL WOULD NOT BE EQUITABLE AND WOULD OFFER ONLY MINOR ASSISTANCE TO MOST OF THE MSA AND POOREST COUNTRIES. IN ADDITION, PUBLIC DEBT

RELIEF DOESN'T ALWAYS HELP BECAUSE PAYMENTS DUE ON SHORT-TERM PRIVATE DEBTS ARE THE SOURCE OF IMMEDIATE DEBT SERVICE PROBLEMS FOR MANY COUNTRIES. FINALLY, SUCH DEBT RELIEF WOULD NEITHER REWARD THOSE COUNTRIES UNDERTAKING SOUND ECONOMIC POLICIES, NOR DISCOURAGE THE CONTINUATION OF ECONOMICALLY UNSOUND PRACTICES.

---WE APPRECIATE THE FACT THAT IN THE FACE OF UNMITIGATED IMPORT GROWTH AND WITH SOME SLOWDOWN IN RATE OF GROWTH OF EXPORT RECEIPTS, SOME NON-OIL LDCS WILL FACE FORMIDABLE FINANCING PROBLEMS. WE ARE PREPARED TO COOPERATE IN FINDING WAYS TO HELP THOSE LDCS WITH SERIOUS FINANCING DIFFICULTIES DESPITE GOOD POLICIES AND WE NOTE THE PROGRESS ALREADY ACHIEVED IN EXPANDING IMF FACILITIES TO HELP SUCH LDCS.

---FOR THE USG, DEBT RELIEF IS THE LEAST DESIRABLE OF ALL APPROACHES TO THE FINANCING PROBLEM. LEGAL AND CONGRESSIONAL CONSTRAINTS REQUIRE THE U.S. TO DISTINGUISH DEBT RELIEF FROM AID. AID IS APPROPRIATED AND ADMINISTERED FOR SPECIFIC PROJECTS AND PROGRAMS WHEREAS DEBT RELIEF SIMPLY LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 05 STATE 257428

"FREES" FUNDS FROM DEBT SERVICE OBLIGATIONS AND IT IS AT BEST DIFFICULT TO SHOW THEY ARE SUBSEQUENTLY USED FOR DEVELOPMENT. AS AN EXAMPLE OF OUR OPPOSITION TO THE USE OF DEBT RELIEF AS AN AID INSTRUMENT, THE USG DID NOT PARTICIPATE IN THE DEBT RELIEF EXTENDED TO INDIA THIS YEAR BY THE AID-TO-INDIA CONSORTIUM. WE DO NOT INTEND TO RESCHEDULE IN THE FUTURE PRIMARILY AS AN AID MECHANISM. ANOTHER FACTOR IS THAT OVER ONE-QUARTER OF THE TOTAL PUBLIC DEBT OWED THE USG BELONGS TO THE EXPORT-IMPORT BANK AND THE COMMODITY CREDIT CORPORATION, AND MAJOR RESCHEDULINGS MIGHT JEOPARDIZE THESE FINANCIALLY SELF-SUSTAINING INSTITUTIONS SINCE THEY RELY PARTIALLY ON REFLOWS.

---CONSEQUENTLY, THE U.S. WOULD NOT BE ABLE TO SUPPORT OR PARTICIPATE IN ANY PROPOSAL WHICH VIEWS DEBT RELIEF AS A MEANS OF PROVIDING GENERAL BALANCE OF PAYMENTS RELIEF TO THE LDCS.

--- (B) THE NETHERLANDS' MORATORIUM PROPOSAL: THE USG WOULD BE PREVENTED FROM PARTICIPATING IN A GENERAL MORATORIUM FOR REASONS NOTED IN 7(A) ABOVE.

---MOREOVER, THE PROPOSED DEBT MORATORIUM INVOLVES DANGEROUS PRECEDENTS FOR THE TRADITIONAL CREDITOR-DEBTOR RELATIONSHIP, AND WOULD AFFECT ADVERSELY THE LONG-TERM FLOW OF RESOURCES TO THE LDCS BY LOWERING THEIR CREDIT-WORTHINESS IN INTERNATIONAL CAPITAL MARKETS.

---THE FACT THAT THE MORATORIUM WOULD ENTAIL NO COST TO THE OIL PRODUCERS IS AN ADDITIONAL DISADVANTAGE.

--- (C) THE "CASE-BY-CASE" APPROACH: WE ARE PREPARED TO CONSIDER CASES OF ACUTE INDIVIDUAL LDC DEBT IN THE EVENT OF CRISIS. THE FACT REMAINS, HOWEVER, THAT THERE IS A WIDE DIVERSITY OF DEBT SITUATIONS CALLING FOR DIFFERENT TYPES OF REMEDIAL ACTION -- AMONG EVEN THE MSAs. WE THEREFORE BELIEVE IT ESSENTIAL TO MAINTAIN THE CURRENT CREDITOR COUNTRY POLICY OF APPROACHING DEBT PROBLEMS ON A "CASE-BY-CASE" BASIS, WHEREBY EACH INDIVIDUAL COUNTRY SITUATION IS EXAMINED ON ITS MERITS.

LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 06 STATE 257428

---(D) THE FORUM FOR DETERMINING ELIGIBILITY FOR DEBT RELIEF: CONSIDERING ITS LONG-TERM HISTORY, WE FEEL THE "CREDITOR CLUB" INSTITUTION (THE PARIS CLUB BEING THE MOST FREQUENTLY USED) HAS SERVED A USEFUL PURPOSE IN COORDINATING CREDITOR POSITIONS FOR NEGOTIATING SPECIFIC DEBT RESCHEDULING CASES. WHILE OTHER FORUMS ARE CONCEIVABLE (E.G. THE IMF) EACH INVOLVES ITS OWN DIFFICULTIES. ON BALANCE WE WOULD SUPPORT CONTINUED USE OF THE CREDITOR CLUB.

---(E) AN INTERNATIONAL CONFERENCE ON DEBT: THE U.S. DOES NOT SUPPORT AN INTERNATIONAL CONFERENCE ON DEBT. WE FEAR THAT IT WOULD FOCUS ALMOST ENTIRELY ON DEBT RELIEF AS A METHOD OF PROVIDING BALANCE OF PAYMENTS SUPPORT. ALSO, WE BELIEVE THAT ANY SUCH CONFERENCE WOULD DISREGARD THE FACT THAT MAIN RESPONSIBILITY FOR AVOIDING DEBT PROBLEMS RESTS WITH DEVELOPING COUNTRIES AND WOULD TEND TO MINIMIZE ANY DISCUSSION OF APPROPRIATE ECONOMIC POLICIES IN THE DEBTOR COUNTRIES, A PRINCIPLE WHICH WE STRONGLY UPHOLD.

--- A 1973 UNCTAD RESOLUTION ESTABLISHED AN AD HOC GROUP OF GOVERNMENT EXPERTS TO CONSIDER THE DEBT PROBLEM. THE EXPERTS ISSUED A RELATIVELY BALANCED REPORT IN MARCH BASED ON EXTENSIVE INPUT FROM UNCTAD, THE IMF, THE IBRD AND THE OECD. IF UNCTAD DESIRES FURTHER WORK ON THE SUBJECT, THE TASK SHOULD BE GIVEN TO THE EXPERTS GROUP WHICH HAS THE BACKGROUND AND TECHNICAL EXPERTISE TO CONSIDER THE INTRICATE ISSUES INVOLVED.

10. FOR LONDON: REF LONDON 15274, PARA 4. USG BELIEVES BRITISH MADE GOOD POINT IN THAT IT WOULD BE DESIRABLE TO HAVE DISCUSSIONS FOR LIMITED DURATION AMONG MAJOR CREDITORS TO REVIEW CREDITOR POLICIES AND PROCEDURES FOR THE COORDINATION OF POSITIONS. WE HAVE THE MATTER OF THE APPROPRIATE FORUM -- INCLUDING THE OECD HIGH GROUP ON NORTH-SOUTH

RELATIONS, THE EXPORT CREDIT GROUP OF THE OECD TRADE
COMMITTEE, AND THE DEVELOPMENT ASSISTANCE COMMITTEE OF THE
DAC -- UNDER CONSIDERATION AND WOULD WELCOME ANY OTHER
IDEAS. INGERSOLL UNQTE
KISSINGER
LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 07 STATE 257428

LIMITED OFFICIAL USE

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 15 NOV 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE257428
Document Source: ADS
Document Unique ID: 00
Drafter: EB/IFD/OMA:BGCROWE
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: n/a
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751190/baaaaczg.tel
Line Count: 282
Locator: TEXT ON-LINE
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 07 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07 MAY 2003 by ElyME>; APPROVED <07 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: EFIN
To: OECD PARIS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006